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SUBJECT: Indonesia's Coal Output Increases In 2006

1. Summary. During 2006 Indonesian coal production and exports increased 3.6% and 8.2%, respectively. According to unofficial statistics, Indonesia passed Australia in early 2007 to become the world's leading exporter of thermal coal, which is used mainly for power generation. Indonesian coal exporters have benefited from high global prices, which have been over \$50 per ton during much of the second half of 2006. Coal was the second most valuable non-oil-and-gas export during the year. Important joint ventures and equity spin-offs featured throughout the year. On June 14, Australia's Amerod Resources Limited and Indonesia's Bayan Resources entered into a joint venture agreement to develop a coal briquette plant in East Kalimantan. Bumi Resources, Indonesia's leading coal producer and exporter, signed a high profile deal to spin off 30% equity to India's Tata Power. The GOI also issued new regulations to support coal-based alternative energy projects. End Summary

Coal Output Increased Up to 3.6%

2. Coal production reached 159 million metric tons (MT) in 2006, up 3.6% from 2005. Kaltim Prima Coal (KPC) at 35.3 million MT and Adaro Indonesia at 30.7 million MT were the leading producers. State owned PT Bukit Asam (PTBA) saw its production remain stagnant due mostly to lack of investment and transportation difficulties. Indominco Mandiri had the largest increase in production on a percentage basis from a little more than 7 million MT in 2005 to more than 10 million MT last year, an increase of 38.3%.

Table 1: Coal Production (in thousands MT)

Company	2004	2005	2006	Change
PTBA (state-owned)	8,707	8,607	8,667	0.7
Adaro Indonesia	24,331	26,686	30,735	15.2
Kaltim Prima Coal	21,280	28,183	35,301	27.3
Kideco	16,927	18,125	17,400	-4.0
Arutmin	15,019	16,757	16,316	-2.6
Berau Coal	9,103	9,197	9,979	8.5
Indominco Mandiri	7,103	7,449	10,302	38.3
Other CCOWs	19,408	27,468	26,095	-5.0
Local cooperatives	9,507	10,993	4,220	-61.6
TOTAL	131,385	153,465	159,015	3.6

Source: Ministry of Energy and Mineral Resources (MEMR)

Coal Exports Increased Steadily

13. Coal exports increased 8.2% or 9 million MT in 2006 representing 75% of production. The leading exporter was PT Bumi Resources through its subsidiaries Kaltim Prima Coal (KPC) and Arutmin. KPC's export increased 28% and Arutmin also increased slightly by 6% compared with the prior year. PT Adaro Indonesia increased their exports sharply by 4.9 million MT, up 28% from 2005.

Table 2: Company Coal Exports (in thousands MT)

Company	2004	2005	2006	Change
PTBA	2,713	2,492	2,848	14.3
Kaltim Prima Coal	22,404	26,622	34,153	28.3
Adaro Indonesia	15,099	17,317	22,239	28.4
Arutmin	13,796	12,517	13,277	6.1
Kideco Jaya Agung	10,966	11,831	10,966	-7.3
Indominco Mandiri	6,584	8,902	10,466	17.6
Berau Coal	6,160	5,763	6,758	17.3
Other CCOWs	11,953	20,063	15,821	-21.1
Local cooperatives	4,084	5,283	3,310	-37.3
TOTAL	93,759	110,790	119,838	8.2

Source: MEMR

14. Local and international industry analysts forecast continued strong demand for Indonesian coal exports to Asia due to strong macroeconomic growth and sustained high oil and natural gas prices. China virtually ceased coal exports by the end of 2006, withdrawing around 100 million MT from the world export market, due to its

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strong domestic demand for coal-fired electricity. Regional exports within Asia reached 79 million MT, almost 66% of total exports. Japan remained the largest consumer of Indonesian coal by almost 23 million MT or 19% of total exports. The European Union increased its imports significantly by 4.9 million MT or 39% from the same period last year. Malaysia and India also significantly increased their off-take of Indonesian coal, up 22% and 35% respectively. The U.S. bought about 2% of Indonesian coal exports.

Table 3: Coal Export Destinations (thousands MT)

Company	2004	2005	2006	Change
Japan	19,013	24,237	22,598	-3.9
European Union	13,163	15,788	20,656	38.9
Taiwan	16,678	14,524	16,748	15.3
South Korea	9,690	9,964	10,592	7.4
Hong Kong	8,230	8,970	9,231	4.6
India	5,465	8,740	10,517	21.5
Thailand	2,217	4,256	4,100	-3.7
Malaysia	4,315	4,028	5,217	35.3
Others	14,988	20,283	20,179	-0.5
TOTAL	93,759	110,790	119,838	8.2

Domestic Supply and Demand

15. On the supply side, Kaltim Prima Coal, Adaro Indonesia, and Arutmin Indonesia dominated, providing over 82 million MT or 52% of total demand and 69.7 million MT or 58% of exports. Domestic coal demand decreased to 35.5 million MT during 2006, compared with 40.2 million MT in 2005. The main driver in domestic demand continues to come from power generation. The GOI has plans to increase significantly coal-fired electric power generation by 10,000 MW by 2009. If the GOI realizes its goal domestic coal demand will increase sharply.

Coal Briquette Joint Venture

¶16. On June 14, Australia's Amerod Resources Limited and Indonesia's Bayan Resources signed a joint venture agreement to build a coal briquette plant in East Kalimantan. They intend to exploit a patented briquetting process using coal from Bayan's Tabang Mine in East Kalimantan. They plan to use the process to convert relatively poor quality coal into a higher-quality and more environmentally-friendly coal briquette. The plant will have an initial capacity of 1 million tons of coal briquettes per year with a possible upgrade up to 3 million tons capacity per year in the offing. The joint venture also includes a 5 year off-take agreement by Bayan for \$100 million of coal briquettes. Both companies are now completing a feasibility study of the project. Amerod owns 51% of the joint venture while Bayan holds the remainder.

Divestment of Bumi Resources

¶17. India's Tata Power announced on March 30 that it would pay \$1.3 billion to purchase 30% equity stakes in Bumi Resource's two major Indonesian coal producers Kaltim Prima Coal and Arutmin Indonesia and a related trading company. Together, KPC and Arutmin produced approximately 51.6 million tons of coal in 2006 with over 95% exported. Bumi has said it plans to increase coal production by 50% over the next three years. As part of the deal, Tata Power said it would also buy 10 million MT of coal annually from KPC for two of its proposed Indian power projects, totaling 7,000 MW, it plans to build by 2012. Bumi paid a total of \$685 million for the two coal mining firms in 2001 and 2003. The current deal values those assets at \$4.3 billion. Bumi and Tata reached financial closing on the deal on May 23, 2007.

New Coal Regulations on 2006

¶18. On January 25, 2006, President Yudhoyono issued Presidential Instruction 2/2006 on the supply and utilization of liquefied coal as an alternative energy form. The President instructed the Minister of Energy and Mineral Resources to create the policy framework for the supply and utilization of liquefied coal and provide incentives for liquefied coal projects. The Minister of

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Energy and Mineral Resources (MEMR) issued regulation 33/2006 on May 22, 2006 to promote the development of coal-bed methane. The Minister instructed the MEMR to create the policy framework for coal-bed methane exploration and exploitation operations. The MEMR will set the terms and conditions for coal-bed methane joint ventures as well as tender procedures for bidding on work areas.

HUME